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# NATIONAL INTELLIGENCE ANALYTICAL MEMORANDUM

*The Prospects for Taiwan  
After Normalization*

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THIS MEMORANDUM IS ISSUED BY THE DIRECTOR OF CENTRAL INTELLIGENCE.

THE NATIONAL FOREIGN INTELLIGENCE BOARD CONCURS, EXCEPT AS NOTED IN THE TEXT, AS FOLLOWS:

*The following intelligence organizations participated in the preparation of the Memorandum:*

The Central Intelligence Agency, the intelligence organizations of the Departments of State, Defense, Treasury, and the National Security Agency.

*Concurring:*

The Deputy to the Director of Central Intelligence for the Intelligence Community, Vice Chairman

The Deputy Director for Intelligence, representing the Central Intelligence Agency

The Director of Intelligence and Research, representing the Department of State

The Director, Defense Intelligence Agency

The Director, National Security Agency

The Deputy Assistant Administrator for National Security, Energy Research and Development Administration

The Assistant Director, Federal Bureau of Investigation

The Special Assistant to the Secretary for National Security, Department of the Treasury

*Also Participating:*

The Assistant Chief of Staff for Intelligence, Department of the Army

The Director of Naval Intelligence, Department of the Navy

The Assistant Chief of Staff, Intelligence, Department of the Air Force

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## **THE PROSPECTS FOR TAIWAN AFTER NORMALIZATION**

### **SCOPE STATEMENT**

This memorandum assesses the potential effects on Taiwan of the normalization of relations between Washington and Peking, should that occur within the next five years. It focuses on the security, economic, and domestic problems that may confront Taiwan after US recognition of the People's Republic of China (PRC) and how Taipei probably will attempt to cope with them. It also addresses some of the effects normalization will have on the way other countries deal with Taiwan, as well as the effectiveness of steps Taipei is likely to take in an effort to minimize any adverse internal reactions.

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## KEY JUDGMENTS

The following key judgments are based on the assumptions that the US will take the steps necessary to retain a full range of economic and cultural ties with Taiwan and that Washington will normalize relations with Peking in a manner that will enable Taipei to provide for its own security.

A. Taipei should be able to control the shock and decline in morale that would accompany the normalization of PRC-US relations. Premier Chiang Ching-kuo has a number of assets and mechanisms that could be employed to reduce the expected trauma of normalization. The Nationalists also can be expected to take steps to ensure the maintenance of economic viability and confidence in Taiwan's prospects.

B. Taiwan's economic status, government, and institutions are all strong. Taiwan's economy, however, is heavily dependent on certain benefits under US laws that probably would have to be modified to take account of Taiwan's new legal status. So long as Washington's postnormalization trade and financial arrangements with Taiwan are close, Taiwan's medium-term credit standing and foreign trade opportunities should remain good.

C. The PRC can be expected to continue tactics designed to erode Taiwan's stability and confidence in the postnormalization period as it seeks to further isolate Taiwan, to increase its own influence over Taiwan's future, and to interest Taiwan's people in reuniting with the mainland. For example, the PRC might attempt to increase economic pressures on third countries or to expand further its air and naval activities in the Taiwan Strait area. Such moves will not significantly affect Taiwan's security and prosperity, however, so long as its economy remains strong and its access to necessary defense equipment remains unimpaired.

D. The PRC is not likely to attempt a direct military attack on Taiwan during the next five years, primarily because of the international political and economic risks involved, but also because of the personnel and materiel losses it would be likely to suffer.

E. The Nationalists will be able to sustain a limited military deterrent against Peking if the US continues to supply military hardware and technology. Spare parts from the US also will be necessary after normalization. Taipei would find it quite difficult to

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purchase from third countries military equipment that would supplement or replace US systems. The Nationalists also cannot, at least in the short term, develop their indigenous weapons industry to a self-sufficient level.

F. The Nationalists believe that retaining a close association with the US will be the key to their survival in a postnormalization period. The Nationalists will continue to prefer these close ties to other options that might endanger ties with the US, such as a turn to the USSR, a declaration of Taiwan's independence from the mainland, or the accelerated development of a nuclear weapons capability. The Nationalists are likely to resist negotiating with the PRC because of their relative weakness and their view that such negotiations would undermine confidence on Taiwan.

G. Taipei's ability to absorb the effects of normalization will not necessarily improve with the passage of time, and could weaken. A long period of uncertainty about its future could erode Taiwan's confidence as well as its acceptance of normalization.

H. Premier Chiang's death or incapacitation would be likely to result in a coalition leadership and a government less able to deal with postnormalization problems. A new government probably would survive, however, if the economy remained strong. Taiwan's security organizations should be able to handle subversion.

I. Taipei apparently has made no comprehensive plans to prepare the population for the postnormalization period. The leadership probably believes that knowledge of such planning could encourage the US to move ahead with the normalization process and that it would have a damaging effect on Taiwan's morale. Once the US gives notice of its decision to complete normalization, however, Taipei can be expected to move to bolster confidence and to minimize any anti-US reactions.

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K. The Nationalists recognize that their leverage over the normalization process is limited.

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